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Secretary, Board of Governors of the Federal Reserve System,
20th Street and Constitution Avenue,
N.W., Washington, DC 20551
February 18th, 2017

Evaluation of The National Settlement Service for the Federal Reserve Bank

Re: Proposed Guidelines for Evaluating Joint Account Requests, Request for Comments Docket Number [OP-1557]

The Board is requesting comment on proposed guidelines to evaluate requests for joint accounts at Federal Reserve Banks by private-sector arrangements within the U.S. payment system.

A joint account is held for the benefit of multiple depository institution account holders. Currently, the Reserve Banks maintain

two joint accounts to facilitate settlement between users of private-sector payment services operated by The Clearing House (TCH): one to facilitate wholesale payments through the Clearing House Interbank Payments System (CHIPS) and another to facilitate TCH's Universal are long-standing, with the more recent account being established approximately 15 years ago

A forward rate agreement (FRA) is an over-the-counter contract between parties that determines the rate of interest, or the [currency exchange](#) rate, to be paid or received on an obligation beginning at a future start date

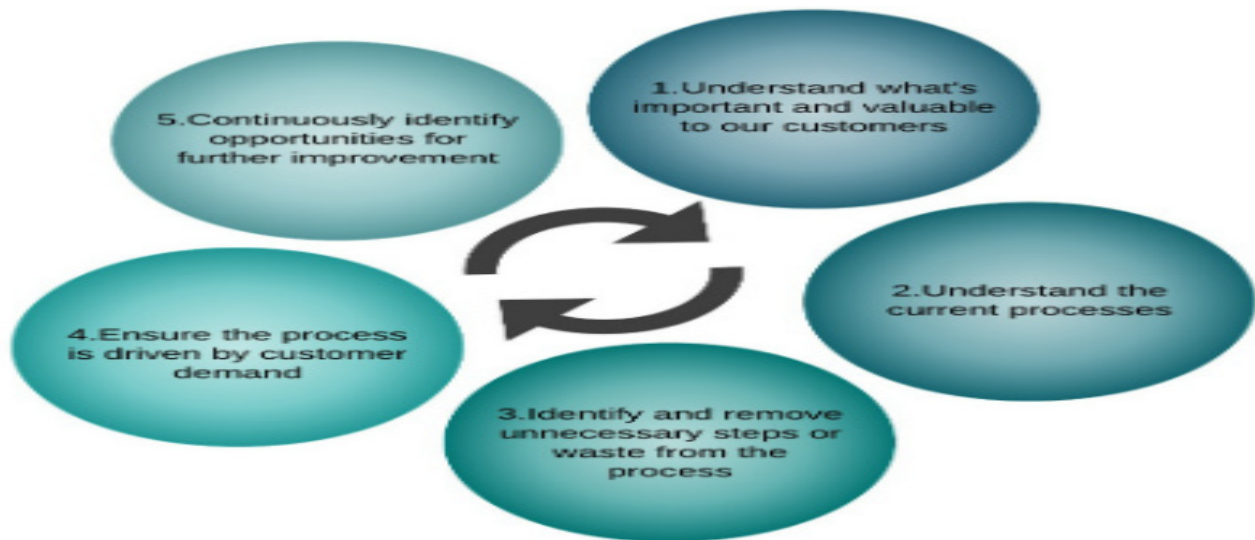
Discussion:

Formally, a review of the National Settlement Service for the Federal Reserve Bank.

Proper controls for functional process improvement or moderation, based upon the current June 2016 rev.

Evaluation of efficiency and quality within the workflow reviewing current business practices finding ways to improve the methodology.

The primary purpose of this evaluation, in addition to gaining insight into prior or existing initiatives, is to enable reflection and assist in the identification of future and further change.



Defination:

payment system” is a set of instruments, procedures, and rules for the transfer of funds between or among participants. Payment systems include, but are not limited to, large-value funds transfer systems, automated clearinghouse systems, check clearinghouses, and credit and debit card settlement systems

Measurements :

VOC-Customer/Client Requirements

Errors and Accuracy

Maintain Standard Operations Procedures annauly or as updates are necessary

Volumes/ Number of Accounts / Dollar Amount of each account/ Total Amount of All Active Account Balances

The National Settlement Service has a low risk indicator in terms of functionality, process and procedures assisted in mitigation of risk to FRB along with internal controls adherence to rules, standards governance and best practices.

Opportunities:

Modernazation of legacy and other outdated systems for future growth

Reduction of Cost /fees

Gain efficiency within operational processes

Building a good reputation within the industry as a service provider

Flexible in meeting the contractual obligations SLA, and client specifications

Enhancing quality and risk internal audits controls in back office under guidelines of compliance

May incorporate multiple settlement times per geographic locations

Reduction of Fraud

Able to explore and add more clients/customer at a lower acquisition price

Obstacles:

Liquidity

Assisting Clients/Customers to meet requirements and guidelines to have a Joint Account

Reducing operational mishaps

Limiting volatility

Counterparty Risk

Maintaining sufficient balances or threshold of funds to meet over cover all transactions

Joint accounts should be revisited as the US Payment system begins to unfold and design modernize methods in processing payments. Everyone would favor a joint account if necessary and the account would assist in the separation of sending payments thru or settlement of the Joint account is currently functional under the legality, standards, rules, adherence to guidelines within the methodology.

The Federal Reserve Bank in conjunction with the Clearing House has defined and provided the joint account as reference:

The joint account for UPIC transactions enables the settlement of ACH credit transactions using UPICs when the transactions are sent by customers of the Reserve Banks' FedACH service and destined for participants in TCH's UPIC service.

Joint account used for transactions and or payments to be allocated.

The applicable legal framework inclusive of the following regs, articles,

Guidelines:

Maintain a balance or threshold of funds within the account to cover all transactions and applicable posting times and deadlines.

Provide a Service level agreement between account holders and FRB

A Proper Business Address on file

Must be an active client / customer of the Federal Reserve bank's FedACH services

Adherence to regulation account holders and the respective rights and duties

Relevant guidance dependent upon governance

General disclosure requirements for holding joint account

Authorize same agent to be a joint account holder, Understanding the role of the fiscal agent being the (Federal Reserve)

Notification when client/customer is leaving or terminating services with the Federal Reserve Bank

Reserve Bank must approve all joint account holders that are part of a proposed private-sector arrangement

Analyzed the application of U.S. sanction programs, must have established appropriate compliance procedures

The private-sector arrangement and any anticipated use of Reserve Bank services must also be identified as part of a joint account request.

Reserve Bank might also retain the right to restrict further or close joint accounts if warranted to implement appropriate monetary policy objectives

Federal Reserve account to obtain certainty that transactions settled via the arrangement are ultimately backed by funds on deposit at the central bank

For the purposes of a system that uses a joint account to facilitate settlement, the standards would be applicable regardless of the daily aggregate gross value in each day

Title VIII, called the "Payment, Clearing, and Settlement Supervision Act of 2010",^{[110](#)} aims to mitigate systemic risk within and promote stability in the financial system by tasking the Federal Reserve to create uniform standards for the management of risks by systemically important financial organizations and institutions by providing the Fed with an "enhanced role in the supervision of risk management standards for systemically important financial market utilities; strengthening the liquidity of systemically important financial market utilities; and providing the Board of Governors an enhanced role in the supervision of risk management standards for systemically important payment, clearing, and settlement activities by financial institutions

Conclusion:

The payment and settlement will experience an opportunity for enhancement by having access to a joint account if needed to secure and reduce risk to the FRB, Clearing House, etc.

foster the safety and efficiency of payment, clearing, settlement, and recording systems and to promote financial stability, more broadly

will be guided by this part, in conjunction with relevant laws, regulations, and other Federal Reserve policies.

A guide will need to be provided and published for public or private use with the rules, guidelines, fees, agreement and requirements to any organization, U.S. depository institutions or private-sector business arrangements who would like to enter a joint account with the Federal Reserve being the fiscal agent. The joint account will facilitate the payment settlement

Most of the guidelines written within the document 1557 were sufficient and can support the PSR policy along with the requirements to hold or establish a joint account with the Reserve Bank.

Volatility within the market usually occurs in the derivatives, securities categories those are areas which obtain high returns. The payment system varies mostly due to the different types of payment methods that are processed all payments can bring about some volatility and joint accounts balances can cause risk to occur with losses to the reserve bank or others if control mechanism is not in place and dual internal controls are not present, our goal would be to lessen the chances of an adverse event occurring or lessen the risk impact to the operations and organizations if it happens.

How volatility is measured will affect the value of the coefficient used, beta is a measure of the volatility, or systematic risk.

Criteria or information that may be relevant to evaluate joint account requests for U.S. depository institutions to provide services to foreign clearing and settlement arrangements

Other information that may be relevant would be if both a tiered and multilateral system exist, along with which other types of transactions will be processed thru the Joint account.

More steps or actions to facilitate settlement for private-sector arrangements considering market participants' efforts to develop faster retail payment solutions would be to put in place a document regarding exceptions that would include private-sector arrangements viewing each based upon needs, and the service level agreements between the fiscal agent and others.

Will these joint accounts function as a reserve account, or collateral, custody services as a part of settlement and payment?

Pricing and or fees for services rendered on behalf of the clients/customers that have obligations at the settlement or payment cycle from the reserve bank.

The payment system must promote transparency, accountability, and the effectiveness, along with integrity of payment services within the united states to build upon our current industry foundation.

The failure of one or more of an FMI's participants to settle their payments or other financial transactions as expected, in turn, could create credit or liquidity problems for participants and their customers, the system operator, other financial institutions, and the financial markets the FMI serves. Thus, such a failure might lead ultimately to a disruption in the financial markets more broadly and undermine public confidence in the nation's financial system

Although they can facilitate the safety and efficiency of the FMI's payment, clearing, settlement, or recording processes, interdependencies can also present an important source or transmission channel of systemic risk

The term "financial market utility" is defined in Title VIII of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) as "any person that manages or operates a multilateral system for transferring, clearing, or settling payments, securities, or other financial transactions among financial institutions or between financial institutions and the person."

Respectively,

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